

Leading and Implementing Change

(LCLM6003)

A Strategic Change Plan for Tesco PLC

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Table of Contents

Executive Summary.....	1
Introduction to Tesco.....	2
Case Context: Tesco and the Strategic Need for Change.....	3
Environmental and Internal Analysis.....	4
PESTLE Analysis.....	4.1
Internal Analysis.....	4.2
Digital Disruption and Strategic Imperative.....	4.3
Critical Evaluation of Change Models.....	5
Lewin's Three-Step Model.....	5.1
Kotter's Eight-Step Change Model.....	5.2
McKinsey 7-S Framework.....	5.3
Comparative Critique and Model Selection.....	5.4
Leadership and Organisational Culture.....	6
Leadership's Role.....	6.1
Cultural Dynamics and Barriers.....	6.2
Leadership-Culture Interaction.....	6.3
Strategic AI-Driven Change Plan for Tesco.....	7
Proposed Strategic Change.....	7.1
SMART Objectives.....	7.2
Financial Plan.....	7.3
Comunication Strategy.....	7.4
Implementation Riscks and Mitigation.....	7.5

Evaluation and Success Measures.....	7.6
Conclusion.....	8
Reference List.....	9

1.EXECUTIVE SUMMARY

The UK retail sector is experiencing one of the most transformative periods in its history, driven by rapid technological advancement, evolving consumer expectations, regulatory shifts, sustainability pressures and intensified competition from digitally advanced market entrants. Tesco PLC— the UK’s largest grocery retailer—faces complex challenges associated with rising operational costs, post-Brexit uncertainty, fluctuating consumer spending and competition from data-rich, AI-enabled organisations such as Amazon, Ocado and discount retailers. As the external environment continues to shift, the organisation must strengthen its digital foundations and adopt artificial intelligence (AI) as a core driver of operational efficiency, customer engagement and long-term resilience.

AI technologies are transforming global retail by improving demand forecasting, automating labour-intensive processes, optimising logistics routes, enhancing sustainability and enabling tailored interactions at scale (Davenport and Ronanki, 2018). These capabilities represent strategic opportunities for Tesco to refine decision-making, reduce waste, minimise stockouts, improve labour planning and raise customer satisfaction. However, successful adoption requires structured organisational change, effective leadership, employee readiness, cultural alignment and investment in digital capabilities.

This strategic change plan outlines a comprehensive pathway for Tesco to achieve AI-driven transformation. It begins with a detailed environmental and internal analysis, incorporating PESTLE evaluation, an assessment of organisational strengths and weaknesses and a review of emerging digital pressures. A critical examination of three leading change management models—Lewin, Kotter and McKinsey 7-S—identifies Kotter’s Eight-Step Model as the most suitable framework for guiding Tesco’s complex, long-term digital transition.

The plan further examines leadership and cultural dynamics, emphasising the importance of transformational leadership, psychological safety, innovation-centric culture and digital confidence among employees (Bass and Riggio, 2006; Schein, 2010). The proposed AI-driven change plan introduces clearly defined SMART objectives, a financially feasible investment outline, an inclusive communication strategy, risk mitigation mechanisms and monitoring tools to evaluate progress.

Overall, the report presents a structured, academically grounded and future-oriented transformation plan designed to strengthen Tesco’s competitive advantage, enhance operational accuracy, improve digital maturity and secure organisational sustainability in an increasingly AI-dominated retail landscape.

2. INTRODUCTION TO TESCO

Tesco PLC was founded in 1919 and has grown into the largest grocery retailer within the United Kingdom, operating thousands of stores and serving millions of customers weekly across multiple formats, including hypermarkets, convenience outlets and online delivery channels. The company’s long-standing success has been supported by its strong supply chain infrastructure, extensive product range and its widely recognised loyalty programme, Clubcard, which has historically provided a strategic advantage in customer analytics (Humby, Hunt and Phillips, 2003).

However, Tesco now faces unprecedented pressures related to technological disruption, economic instability, sustainability requirements and increasingly sophisticated competitors. Global retailers such as Amazon utilise AI to deliver rapid fulfilment, dynamic pricing and seamless digital customer journeys, setting new performance benchmarks. Discount retailers have attracted customers through low-

cost structures, while online-first grocery providers have reshaped expectations for convenience, delivery speed and personalisation.

Although Tesco has taken steps toward digital transformation—for example, by launching automated checkouts, improving online capacity and investing in data analytics—it remains at an early stage of AI integration compared to industry leaders. As customer expectations evolve, retail organisations must transition from traditional operational models toward intelligent, data-driven, digitally enabled ecosystems (Westerman, Bonnet and McAfee, 2014).

This report provides a comprehensive, academically structured AI-driven change plan aligned with Tesco's long-term strategic goals. It begins with an environmental and internal analysis, proceeds to critically evaluate change management models, assesses leadership and cultural readiness and concludes with a strategic transformation plan incorporating objectives, financial considerations, communication mechanisms and evaluation tools. The purpose is to present a holistic and evidence-based proposal that supports Tesco in strengthening competitiveness, improving efficiency and enhancing sustainability through structured AI adoption.

3. CASE CONTEXT: TESCO AND THE STRATEGIC NEED FOR CHANGE

While Tesco maintains a significant share of the UK grocery market, it faces escalating operational pressures and fierce competition from both technology-driven retailers and agile discount chains. Digital-first competitors, particularly Amazon Fresh, leverage AI-powered logistics, real-time analytics and automated checkout systems to deliver superior accuracy, greater convenience and highly personalised interactions. These capabilities raise customer expectations and challenge traditional retailers to match comparable levels of speed, accuracy and digital sophistication (Teece, 2018).

Tesco's large workforce and legacy systems create both advantages and constraints. On the one hand, Tesco possesses vast amounts of customer and transactional data,

a sophisticated supply chain and strong brand loyalty—all of which provide a foundation for AI-enabled innovation. On the other hand, uneven digital capability among staff, cultural resistance to change, manual operational processes and outdated IT systems hinder rapid transformation.

The strategic need for change at Tesco is driven by the following pressures:

Internal Pressures

- Aging IT infrastructure and operational inefficiencies
- Labour-intensive workflow processes
- Cultural resistance and digital skill gaps
- Fragmented data systems that limit real-time intelligence

External Pressures

- AI-enabled competitors offering seamless digital experiences
- Rising customer expectations for convenience and personalisation
- Inflationary pressures and cost-of-living challenges
- Post-Brexit supply chain disruptions (Griffith et al., 2021)
- Sustainability and carbon-reduction expectations from regulators and consumers
- Increased importance of cybersecurity and data governance

Failure to strategically adopt AI risks undermining Tesco's competitive edge, increasing operational costs, reducing customer satisfaction and threatening long-term stability. A structured transformation plan is therefore essential.

4. ENVIRONMENTAL AND INTERNAL ANALYSIS

Tesco's AI-driven transformation must be grounded in a detailed understanding of external and internal influences. PESTLE analysis provides a macro-level assessment of environmental pressures, followed by an internal analysis highlighting strengths and weaknesses related to digital readiness. Digital disruption represents the third

component, outlining how emerging technologies reshape competitive dynamics and require Tesco to act urgently.

4.1 PESTLE Analysis

Political: Brexit has reshaped supply chain processes and regulatory obligations. Retailers must navigate complex import requirements, food safety protocols and labour regulations (Griffith et al. 2021). Sustainability policies increasingly require investment in green operations.

Economic: UK inflation continues to affect supply chain, labour and energy costs. Customers gravitate toward value ranges and discount competitors. AI can support agile pricing, demand forecasting and labour optimisation.

Social: Shoppers expect convenience, digital engagement, quick delivery and personalised experiences. Diverse employee demographics require inclusive training for AI adoption. Convenience culture drives expectations for efficient checkout and delivery options.

Technological: AI, robotics, machine learning and automation are reshaping retail (Westerman, Bonnet and McAfee 2014). Tesco must modernise IT infrastructure and expand digital skill-building.

Environmental: Pressure to reduce food waste, plastic use and carbon emissions is increasing. AI-enhanced forecasting and logistics significantly support environmental goals (McKinsey 2022).

Legal: Data protection, GDPR compliance, employment law and ethical AI considerations are crucial. AI adoption increases cybersecurity and data governance requirements.

4.2 Internal Analysis

Strengths

- Significant loyalty data
- Large store and supply chain network
- Strong brand presence
- Large customer base
- Multichannel operations

Weaknesses

- Legacy IT systems
- Uneven digital skills among staff
- Cultural resistance
- Labour-intensive processes
- Slow adoption of robotics compared to competitors
- Tesco needs to modernise its systems and promote digital capability-building.

4.3 Digital Disruption and Strategic Imperative

The retail sector is experiencing major digital disruption. Amazon's AI-driven operations demonstrate how predictive analytics, automation and robotics can streamline logistics and improve customer experience (Teece 2018). AI adoption is becoming a necessity for maintaining operational excellence.

For Tesco, AI offers opportunities to:

- Improve forecasting accuracy
- Minimise stockouts and waste
- Automate routine processes
- Deliver personalised recommendations
- Enhance online delivery
- Improve waste management
- Enhance decision-making

Digital disruption therefore creates a strategic imperative for change.

5. CRITICAL EVALUATION OF CHANGE MODELS

Successfully implementing AI-enabled transformation in Tesco requires a robust theoretical foundation. Change management models offer structured guidance on how organisations can navigate resistance, adapt behavioural routines and transition toward new ways of working. This section critically evaluates three major change management frameworks: Lewin's Three-Step Model, Kotter's Eight-Step Process, and the McKinsey 7-S Framework, followed by a justified selection of the most appropriate model for Tesco's AI-driven transformation.

5.1 Lewin's Model

Lewin's (1947) Three-Step Model—unfreeze, change, refreeze—is one of the earliest and most influential frameworks in organisational change. It emphasises preparing employees psychologically before introducing change, followed by stabilising new behaviours.

Strengths

- Provides a simple, intuitive sequence that guides organisations through behavioural transformation.
- Highlights the importance of addressing resistance and breaking “old habits” before implementing new processes.
- Encourages organisations to create stability after transformation so employees understand new expectations (Burnes 2017).

Weaknesses

- The model is too linear for modern environments characterised by continuous technological evolution (Cameron and Green 2020).
- Assumes that once change is made, stability is achieved; however, AI transformation requires permanent adaptation, updates and iterative learning.
- Lacks specific guidance on communication, leadership involvement, or cultural transformation.

Relevance for Tesco

For Tesco, Lewin's model helps interpret employee resistance to technology, particularly from long-serving staff who may feel threatened by automation. However, the model does not provide adequate guidance for managing the complexity, scale and continuous evolution of AI technologies. Thus, while useful conceptually, it is not sufficient as Tesco's primary framework.

5.2 Kotter's Model

Kotter's (1996) Eight-Step Model is widely applied in large organisations undertaking complex transformation. It includes:

- Establish urgency
- Form a guiding coalition
- Develop a vision
- Communicate the vision
- Empower action
- Generate short-term wins
- Consolidate gains
- Anchor changes in culture

Strengths

- Offers a clear, structured and systematic process, suitable for large organisations.
- Emphasises leadership alignment, which is crucial in a company of Tesco's scale.
- Prioritises effective communication, a consistent weakness in failed digital transformations (Westerman, Bonnet and McAfee 2014).
- Encourages early wins that build organisational momentum.
- Explicitly focuses on embedding change into culture, ensuring sustainability.

Weaknesses

- Can be time-consuming and bureaucratic if not managed efficiently.
- Requires substantial leadership commitment across all organisational levels.
- May appear too structured for highly agile or rapidly changing technological environments.

Relevance for Tesco

Given Tesco's size, hierarchical structure and widespread workforce, Kotter's model provides the most comprehensive roadmap for operationalising AI at scale. It supports clear communication, structured rollout, skills development and cultural embedding—essential factors for Tesco's success.

5.3 McKinsey 7-S Framework

The McKinsey 7-S model consists of seven interconnected elements—strategy, structure, systems, staff, skills, style, shared values—and is used to diagnose organisational readiness and alignment.

Strengths

- Provides a holistic view of organisational design and capability.
- Highlights misalignments in skills, systems and culture, which are critical barriers to AI adoption (McKinsey 2022).
- Encourages leaders to consider internal integration rather than focusing solely on strategy.

Weaknesses

- Does not provide implementation steps, limiting its ability to guide practical change.
- Requires subjective interpretation and may vary depending on the analyst.
- Does not directly address resistance management or communication strategies.

Relevance for Tesco

Tesco benefits from using the 7-S framework as a diagnostic tool, identifying gaps in digital skills, legacy IT constraints, and cultural resistance. However, it cannot independently drive the transformation process.

6. LEADERSHIP AND ORGANISATIONAL CULTURE

AI adoption requires strong leadership, cultural transformation and employee empowerment. Tesco's ability to implement AI successfully will depend on how effectively leaders influence behaviour, support learning, and reshape organisational norms.

6.1 Leadership Role

Effective leadership is critical to reducing uncertainty and fostering employee engagement during technological change. Transformational leadership, which focuses

on inspiring and motivating employees, is especially suited to AI transformation (Bass and Riggio 2006). Tesco's leaders must:

- Communicate a clear digital vision
- A compelling narrative about the benefits of AI is essential to reduce confusion and fear (Kotter 1996).

Model digital curiosity

Employees take behavioural cues from leaders; therefore, involvement in training and digital adoption is crucial.

Enable learning and experimentation

Training programmes, coaching and skill development build confidence and reduce resistance.

Empower teams

Leadership must remove structural barriers, ensuring teams have the autonomy to implement AI-enabled processes.

Provide psychological safety

Employees fearing job displacement must be reassured that AI is intended to augment, not replace, human roles (Deloitte 2023).

6.2 Cultural Dynamics and Barriers

According to Schein's (2010) model, culture consists of artefacts, espoused values and underlying assumptions. Tesco's culture is historically characterised by:

- High value on customer service
- Stability and consistency in store operations
- Routine, manual tasks
- Long employee tenure
- Risk-averse behaviours
- Cultural barriers to AI adoption
- Fear of automation and job loss

- Limited digital confidence
- Resistance to procedural change
- Preference for familiar tools and processes

Such cultural barriers can derail even well-designed technological change initiatives.

6.3 Leadership-Culture Interaction

Leadership and culture are mutually reinforcing. Leaders must actively drive cultural evolution by:

- Rewarding innovation and digital initiative
- Establishing communities of practice for AI learning
- Publicly recognising early adopters
- Normalising experimentation and learning from mistakes

With aligned leadership and culture, Tesco can embed AI into its long-term identity.

7. STRATEGIC AI-DRIVEN CHANGE PLAN FOR TESCO

The successful adoption of Artificial Intelligence within Tesco requires a coordinated, multi-layered strategy that aligns operational processes, workforce capabilities, leadership behaviour, organisational culture, and technology infrastructure. AI implementation must not be viewed as a purely technological upgrade, but as a transformational organisational change that reshapes how decisions are made, how employees work, and how Tesco delivers value to its customers (Davenport and Ronanki, 2018). Kotter's Eight-Step Change Model provides a clear, actionable and structured framework suitable for Tesco's scale and complexity. This section outlines the proposed strategic change, its objectives, financial requirements, communication structure, risk mitigation strategies, and evaluation mechanisms.

7.1 Proposed Strategic Change

The strategic change initiative proposes the organisation-wide integration of AI systems across six operational domains:

1. Demand Forecasting and Inventory Management

AI-driven forecasting models enable Tesco to predict product demand more accurately by analysing past purchasing patterns, seasonality, promotions, weather data and competitor activity. This will reduce stockouts, minimise food waste, and optimise replenishment cycles (McKinsey, 2022).

2. Supply Chain and Logistics Optimisation

AI will improve routing efficiency, automate warehouse processes, enhance capacity planning, and reduce transportation costs. Robotics can streamline picking and packing processes, improving accuracy and speed.

3. Personalised Marketing and Customer Insights

Machine learning algorithms can analyse millions of Clubcard transactions to deliver personalised promotions, recommend products, strengthen loyalty, and increase basket value (Humby et al., 2003; Johnson et al., 2020).

4. Automated Checkout and In-Store Technologies

Tesco will expand its adoption of scan-and-go systems, smart trolleys, camera-assisted checkout and mobile-based payments to reduce queueing times and enhance customer convenience.

5. Workforce Planning and Task Automation

AI tools can support labour scheduling, predict peak trading periods, automate routine administrative tasks and allow staff to focus on customer-facing activities.

6. Sustainability and Waste Reduction Analytics

AI-based waste reduction systems will monitor product life cycles, optimise markdown timings, and support the reduction of carbon emissions through logistic optimisation.

- This multi-phase transformation will be implemented initially through pilot stores, before being scaled nationally.

7.2 SMART Objectives

Tesco's strategic AI initiative will be guided by the following SMART objectives:

S1: Increase forecasting accuracy by 20% within 18 months through machine learning analytics (Deloitte, 2023).

S2: Reduce fresh-food waste by 15% within two years, enabled by predictive stock management.

S3: Train 80% of the workforce in digital and AI proficiency by 2027, using structured learning pathways.

S4: Increase automated checkout usage to 60% of transactions within 24 months, thereby reducing queueing and labour pressure.

S5: Improve overall customer satisfaction scores by 10% in year one, driven by enhanced personalisation and service efficiency.

S6: Improve delivery efficiency by 12% within 18 months, through AI-enhanced routing and warehouse automation.

These objectives align with Tesco's sustainability commitments, customer value proposition, and long-term digital transformation strategy (Tesco PLC, 2024).

Clarification Note:

The SMART objectives presented in this section are developed using Tesco's publicly available strategic priorities (Tesco Annual Report 2024), combined with standard change-management criteria widely recommended in academic literature (Kotter, 2012; Cameron & Green, 2020).

They are not based on internal Tesco data, but serve as realistic, evidence-based examples showing how SMART goal setting can support an AI-driven transformation strategy.

7.3 Financial Plan

AI transformation requires significant investment in infrastructure, training, and digital capabilities. Based on industry benchmarks (McKinsey, 2022; Deloitte, 2023), Tesco's estimated budget over three years is £350 million, distributed as follows:

- £120m – AI infrastructure and cloud platforms
- £80m – Robotics and automation for distribution centres
- £50m – Workforce training and digital upskilling initiatives
- £40m – Data governance and cybersecurity enhancement
- £30m – Pilot testing and phased roll-out costs
- £20m – Systems integration and consultancy support
- £10m – Communication and change-management activities

Investment will be monitored through quarterly CFO reviews, ensuring financial sustainability and ROI tracking.

Clarification Note:

The financial plan outlined in this section uses estimated investment categories (e.g., technology, training, integration, and governance) that follow typical cost structures reported in academic research on AI adoption (Davenport & Ronanki, 2018; Westerman et al., 2014) and industry benchmarking reports.

The figures are illustrative for academic purposes and demonstrate how Tesco could logically allocate resources to support AI-enabled organisational change, without relying on confidential internal financial data.

7.4 Communication Strategy

Effective communication is essential for minimising resistance and building employee confidence (Kotter and Schlesinger, 2008). Tesco's communication strategy will operate across multiple levels:

- Leadership Communication
- CEO and Executive Committee statements
- Quarterly digital transformation updates
- Leadership workshops promoting AI vision and culture
- Store-Level Communication
- Team briefings led by store managers
- Digital information boards
- Training demonstrations and support materials
- Digital Communication Channels
- Intranet updates
- Email newsletters
- AI transformation microsite
- Short instructional videos
- Customer Communication
- In-store posters explaining AI benefits
- Transparent data ethics statements
- Promotion of faster checkout and personalised offers
- Transparent communication ensures trust and supports widespread adoption.

7.5 Implementation Risks and Mitigation

AI transformation carries several risks. A detailed risk register identifies the following:

1. Employee Resistance

Mitigation: early engagement, training, incentives, involvement in pilot testing.

2. Digital Skills Gaps

Mitigation: structured training pathways, mentoring, digital champions.

3. Cybersecurity Risks

Mitigation: enhanced data governance, encryption, regular audits.

4. Integration Challenges

Mitigation: phased roll-out, pilot testing, dedicated IT integration teams.

5. Cost Overruns

Mitigation: strict financial controls, stage-gate project approvals.

6. Customer Concerns About Data Use

Mitigation: compliance with GDPR, transparency policies, clear consent mechanisms.

Robust mitigation strategies ensure the transformation remains sustainable.

7.6 Evaluation and Success Measures

Ongoing evaluation supports continuous improvement. Tesco will use multiple metrics:

- Forecasting accuracy improvements
- Food waste reduction percentages
- Automated checkout adoption rates
- Employee digital competency assessments
- Customer satisfaction (Net Promoter Score)
- Operational efficiency metrics
- Financial ROI
- Sustainability performance indicators

Evaluation will occur quarterly, with results reported to senior leadership and store-level teams.

8. CONCLUSION

Tesco operates within a retail sector undergoing profound digital and economic transformation. The rise of AI-driven competitors, increasing operational costs, shifting consumer expectations and environmental pressures require Tesco to undertake a structured organisational transformation. The analysis presented in this report demonstrates that AI adoption can significantly enhance forecasting accuracy,

improve customer experience, optimise operations, and strengthen long-term competitiveness.

Environmental and internal analyses confirm the urgency for change, while the evaluation of change models highlights Kotter's Eight-Step Model as the most suitable framework for guiding Tesco's large-scale transformation. Leadership and culture are shown to be critical enablers, requiring transformational leadership behaviours, capability-building initiatives and cultural alignment.

The proposed strategic AI-driven plan provides a clear roadmap covering objectives, investment, communication, risk mitigation and evaluation. Through consistent leadership commitment, employee engagement, investment in digital capabilities and a strong focus on customer value, Tesco can transition into a digitally mature, resilient and future-ready organisation.

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